

Message Text

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51

ACTION EB-11

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TAGS: ETRD, CA, US

SUBJECT: IMPLICATIONS FOR US EXPORTS OF RECENT FOREIGN EXCHANGE
DEVELOPMENTS:

REF : STATE 77866

1. IN THE THREE YEARS SINCE THE CANADIAN DOLLAR WAS UNPEGGED FROM ITS 92.5 CENT PARITY WITH US DOLLAR, IT HAS FLOATED AS HIGH AS US\$1.02 AND HAS BEEN ROUGHLY AT PAR FOR THE PAST SIX MONTHS. WITH CANADIAN DOLLAR CONTINUING TO FLOAT IN CLOSE RELATIONSHIP WITH US DOLLAR, RECENT EXCHANGE RATE CHANGES HAVE NOT AFFECTED COMPETITIVENESS OF US EXPORTS WITH CANADIAN PRODUCTS IN CANADIAN AND THIRD COUNTRY MARKETS. HOWEVER, APPRECIATION OF YEN, MARK AND CERTAIN OTHER EUROPEAN CURRENCIES HAVE SOMEWHAT STRENGTHENED US POSITION VIS- A- VIS THIRD COUNTRY GOODS IN CANADIAN MARKET. AS EVIDENCE OF THIS, US SHARE OF CANADIAN IMPORTS FOR FIRST QUARTER 1973 ROSE TO 68.5 PERCENT

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AS COMPARED WITH 66.8 PERCENT FOR SAME PERIOD OF 1972.

2. SOME MODERATION IN GROWTH OF IMPORTS FROM JAPAN (C\$1.1 BILLION OR 6 PERCENT OF TOTAL IMPORTS IN 1972) SHOULD BE NOTICEABLE LATER THIS YEAR. IMPORTERS OF JAPANESE GOODS TOLD AMCONSUL VANCOUVER THAT MACHINERY IMPORTS THIS YEAR MAY DECLINE 30-40 PERCENT, STEEL MAY BE DOWN 10-15 PERCENT (SHORT CANADIAN SUPPLY PREVENTING GREATER DECREASE) AND THAT CANNED FOODSTUFFS SALES TO WEST COAST COULD BE OFF 15 PERCENT. SOURCE ADDED THAT POPULARITY ECONOMICAL JAPANESE AUTOS MAY OFFSET 10 PERCENT PRICE INCREASE SO THAT DOLLAR SALES LEVEL REMAINS UNCHANGED IN 1973. NEW CAR REGISTRATIONS IN JANUARY- FEBRUARY INDICATE TOYOTA/ DATSUN ACCOUNT FOR 9.5 PERCENT OF MARKET, DOWN FROM 11.8 PERCENT IN SAME PERIOD 1972. OTHER JAPANESE PRODUCTS EXPECTED TO LOSE GROUND ON CANADIAN MARKET INCLUDE TEXTILES AND CLOTHING GENERALLY AS WELL AS ELECTRONIC COMPONENTS.

3. SOME WEAKENING OF WEST GERMAN IMPORTS (C\$512 MILLION OR 3 PERCENT OF TOTAL IMPORTS IN 1972) PARTICULARLY AUTOMOBILES AND ELECTRONIC EQUIPMENT ALSO EXPECTED ALTHOUGH TRADE SOURCES NOT SPECIFIC ON DOLLAR VALUES. IT ALSO POSSIBLE THAT SAME CONSUMER PREFERENCE FOR SUBCOMPACTS THAT MAY HOLD LINE ON JANANESE QUTO SALES COULD SOFTEN DECLINE IN DOLLAR VALUE OF VOLKSWAGEN SALES (CURRENTLY 3.8 PERCENT OF CANADIAN MARKET).

4. US AND CANADIAN EXPORTS TO THIRD COUNTRIES WILL CONTINUE TO COMPETE MAINLY IN TERMS OF PRICES AND COSTS WITH INFLATION FACTORS IN BOTH COUNTRIES OF PRIMARY IMPORTANCE. MOST RECENT FORECAST PREPARED USING ECONOMETRIC MODEL OF ECONOMIC COUNCIL OF CANADA INDICATES REAL GROWTH OF 6.8 AND 5.5 PERCENT FOR 1973 AND 1974 RESPECTIVELY. GNP DEFLATOR ESTIMATED AT 5 PERCENT AND 4.1 PERCENT FOR SAME PERIODS. US ABILITY RESTRAIN INFLATION DURING PHASE 3 WHILE MAINTAINING CURRENT PRODUCTION BOOM WILL BE A CRITICAL FACTOR IN MAINTAINING COMPETITIVE POSITION IN THIRD COUNTRY MARKETS.

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